

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 NSC-05 NSCE-00 SSO-00 INRE-00

SS-15 DODE-00 AID-05 SP-02 MMS-01 PM-03 L-03 EB-07

CU-02 INR-07 CIAE-00 ACDA-05 AGR-05 COME-00 OMB-01

OPIC-03 PC-01 TRSE-00 USIE-00 PER-01 IGA-01 INT-05

EUR-12 EA-06 ABF-01 /102 W

----- 065396

O 261535Z JUN 75

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 7122

C O N F I D E N T I A L SECTION 1 OF 2 LA PAZ 4419

E.O. 11652: GDS

TAGS: PFOR, EAID, BL

SUBJ: BOLIVIA CASP: PRE-IG REVIEW

REF: STATE 144903

1. EMBASSY AGREES THAT ISSUE NUMBER ONE RAISES QUESTIONS OUTSIDE THE BILATERAL FOCUS OF THE CASP PROCESS. WE HOPE THAT THIS ISSUE WILL BE CONSIDERED IN SOME OTHER FORUM FROM TIME TO TIME, BECAUSE THE TENSIONS IN THE REGION ARE IN PART THE SOURCE OF POLICY DECISIONS IN THE THREE COUNTRIES AFFECTING THE ALLOCATION OF RESOURCES. WE DO NOT BELIEVE THAT BOLIVIA'S ACCESS TO THE SEA IS THE BASIC QUESTION OF ISSUE NUMBER ONE. THE DEVELOPMENTAL APPROACH WE SUGGESTED AS A POSSIBLE SOLUTION TO CONFRONTATION IN THE REGION PRESUMABLY WOULD INVOLVE MUCH IMPROVED ACCESS TO THE SEA FOR BOLIVIA, BUT THIS WOULD BE A COROLLARY TO A BROADER SOLUTION TO A BROADER PROBLEM. WE DO NOT THINK THE QUESTION OF BOLIVIA'S CONFIDENTIAL

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DESIRE FOR AN OUTLET TO THE SEA IS A

BILATERAL ISSUE AND THEREFORE RECOMMEND THAT IT NOT BE PRESENTED TO THE IG. WE AGREE WITH THE PRE-IG RECOMMENDATION TO DELETE ISSUE NUMBER TWO. THUS WE BELIEVE IT WOULD BE APPROPRIATE FOR THE BOLIVIA CASP TO HAVE NO ISSUES FOR THE IG TO RESOLVE.

2. WE PROPOSE THAT IN VIEW OF THE DELETION OF ISSUE NUMBER TWO, THE DECISION MEMORANDUM REITERATE APPROVED POLICY TO MEET MILITARY COMMITMENTS IN TIMELY FASHION.

3. WE AGREE WITH LEVELS AND RATIONALE CONTAINED IN PARA 3 REFTEL REGARDING MILITARY ASSISTANCE.

4. MISSION WILL POUCH COPY OF MILGROUP MESSAGE DATED 051940 MAY 75 SHOWING MINIMUM COST ON A LINE ITEM BY LINE ITEM BASIS. THE TOTALS ARE: FY76: \$1,693,125, AND FY77: \$2,069,814. THE FY77 FIGURE INCLUDES \$1,072,504 WHICH WAS PROJECTED FOR FY78 IN THE MILGROUP'S POM PRESENTATION. THE TOTAL FIGURE FOR COMPLETING TIPO COMMITMENT IN THE CASP TIME FRAME IS \$3,762,939. IT SHOULD BE NOTED THAT THESE COST ESTIMATES ARE BASED ON 1974 PRICES AND DO NOT INCLUDE AN INFLATION FACTOR. MOREOVER, THE FIGURES SHOWN FOR MAP MATERIEL IN THE CASP SUBMISSION INCLUDED NOT ONLY FIGURES FOR COMPLETION OF THE TIPOS BUT ALSO ASSISTANCE FOR THE OTHER MILITARY SERVICES.

5. THE MILGROUP STRENGTH LEVEL OF 33 (NOT 35 AS SHOWN IN THE CASP) FOR FY77 WOULD PROVIDE TWO ADDITIONAL PERSONNEL REQUIRED TO UPGRADE MAINTENANCE CENTERS IN COCHABAMBA AND SANTA CRUZ TO PROPERLY SUPPORT THE TIPOS. THE TWO MAINTENANCE ADVISERS ARE PROJECTED FOR A TWO-YEAR PERIOD AND WERE COVERED IN JOINT MANPOWER PROGRAM DOCUMENT SUBMITTED IN NOVEMBER 1974. ARA/BC/B DESK NOW HAS POST'S JUSTIFICATION FOR PROPOSAL

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TO REDUCE ONE POSITION IN THE DAO.

6. WE SHARE THE PRE-IG INTEREST IN THE FISCAL SITUATION, BUT BELIEVE THAT THERE HAS BEEN IMPROVEMENT IN PERFORMANCE, AND THE GOB HAS UNDERWAY STEPS TO MAKE FURTHER REFORM. THE IFIS HAVE NOT BEEC CONCERNED ABOUT THE FISCAL SITUATION NOR HAVE THEY SHOWN ANY WILLINGNESS

TO ENGAGE IN AN ORCHESTRATED APPROACH BASED ON AN AGREED SET OF PROPOSALS. UNDER THESE CIRCUMSTANCES WE BELIEVE IT UNWISE POLITICALLY, UNNECESSARY AND PROBABLY INEFFECTIVE FOR THE US TO GO IT ALONE PRESSURING THE GOB FOR SPECIFIC TAX ACTIONS. WE DO NOT THINK THAT AN AFFIRMATION OF 1974 IG DECISION MEMORANDUM NO. 6 WOULD BE APPROPRIATE SINCE IT EMBODIES PROPOSALS FOR PRECISE FISCAL ACTIONS WHICH ARE NOT NOW APPLICABLE NOR ARE THEY ENDORSED BY THE IMF. UPON READING OF OUR CASP WE BELIEVE WE HAVE UNDERSTATED OUR WILLINGNESS AND INDEED OUR CURRENT POSTURE OF COOPERATING WITH AND WORKING TOGETHER WITH THE IFIS ON THE FISCAL ISSUE. AMBASSADOR WOULD LIKE TO CHANGE HIS OVERVIEW STATEMENT SO THAT IN PARA 2 ON PAGE 4, THE SENTENCE WOULD READ: QUOTE-- IT IS BETTER FOR US TO WORK CLOSELY WITH INTERNATIONAL LENDING AGENCIES-- UNQUOTE

7. THE FOLLOWING INFORMATION MAY HELP PRE-IG MEMBERS TO ACCEPT THE PROPOSALS IN THIS CABLE. WE ESTIMATE BOLIVIA'S REAL GROWTH RATE TO CONTINUE BETWEEN 5.5 PERCENT AND 7.5 PERCENT AS IT HAS SINCE 1972. WEAKENING BALANCE OF PAYMENTS PERFORMANCE ALMOST ENTIRELY DUE TO WEAKENING WORLD PRICES FOR BOLIVIAN EXPORTS; BUT EVEN SO, FOREIGN EXCHANGE RESERVES MORE THAN ADEQUATE FOR ANTICIPATED LOSS IN 1975 AND PROBABLY FOR 1976. WHAT EXPORT PRICES WILL BE IN 1976 AND 1977 IS ANYBODY'S GUESS, BUT VOLUME AND REAL VALUE EXPORTS EXPECTED

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TO EXPAND CONSIDERABLY IN 1977 MONETARY POLICY THUS FAR IN 1975 EXTREMELY RESTRAINED AND BUDGET DEFICIT HAS NOT YET APPEARED. MOST IMPORTANT, MISSION HAS NO EVIDENCE THAT TREASURY RESOURCES AND OTHER LOCAL CONTRIBUTIONS FOR AID-FINANCED SECTOR PROGRAMS AND PROJECTS ARE NOT OR WILL NOT BE FORTHCOMING. ANNEX B-1 CITES RISING PUBLIC SECTOR INVESTMENT FROM DOMESTIC RESOURCES AND THEREFORE DIFFERS WITH STATEMENT IN STATE 144903 CITING QUOTE GOB'S FAILURE TO ... MIBILIZE DOEMSTIC RESOURCES FOR PUBLIC INVESTMENT. UNQUOTE. GOB IS MOVING TO ADJUST ITS TAX AND EXPENDITURE POLICIES FOR LONG TERM. IT HAS HIRED HARVARD TEAM TO ANALYZE MINING SECTOR AND MAKE RECOMMENDATIONS

FOR RESTRUCTURING TAXES ON THAT SECTOR.

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ACTION ARA-10

INFO OCT-01 ISO-00 NSC-05 SS-15 DODE-00 AID-05 SP-02 MMS-01

PM-03 L-03 EB-07 CU-02 INR-07 CIAE-00 ACDA-05 AGR-05

COME-00 OMB-01 OPIC-03 PC-01 TRSE-00 USIE-00 PER-01

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EA-06 ABF-01 /102 W

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O 261535Z JUN 75

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 7123

C O N F I D E N T I A L SECTION 2 OF 2 LA PAZ 4419

MORE RECENTLY GOB HAS MOVED TO HIRE SECOND HARVARD TEAM HEADED BY PROF. MUSGRAVE TO CARRY OUT STUDY ON OVERALL TAX AND EXPENDITURE POLICY. WE CANNOT KNOW WHAT WILL COME OF THIS, BUT IT DOES APPEAR THAT GOB IS MOVING CAREFULLY TOWARD LONG-TERM REFORM OF ITS REVENUE STRUCTURE.

8. WE NOTE ELIMINATION OF PL-480 TITLE I (PAGE 14). USAID ANNUAL BUDGET SUBMISSION (ABS) FORWARDED BEFORE RECEIPT REFTEL RENEWS REQUEST AND JUSTIFICATION. MINISTER INDUSTRY AND COMMERCE TOLD AMBASSADOR JUNE 20 THAT GOB WILL MAKE REQUEST SOON. WE WOULD PREFER TO HAVE PL-480 TITLE I INCLUDED IN CASP, BUT CAN UNDERSTAND ITS DELETION IF NEW GOB REQUEST WILL BE EVALUATED ON ITS MERITS, WHETHER IN CASP OR NOT.

9. SEVERAL DRAFTING CHANGES SUGGESTED FOR "ECONOMIC PROSPERITY" INTEREST PAPER (PAGE 16)

MODIFY SENSE AND EMPHASIS OF DRAFT AND APPEAR
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TO DEPART FROM CASP INSTRUCTIONS ON WHAT TEXT
SHOULD INCLUDE.

(A) FIGURES IN PARAGRAPH BEGINNING QUOTE
BOLIVIA IS BELIEVED ... UNQUOTE CAN BE DROPPED,
BUT IT IS ONLY PLACE IN THIS CASP WHICH GIVES
THESE FIGURES WHICH CALL ATTENTION TO PRESENT
AND POTENTIAL IMPORTANCE OF BOLIVIA AS RAW
MATERIALS SUPPLIER. WE ASSUME ELIMINATION
OF "CHALLENGES AND OPPORTUNITIES" (PAGE 18) IS
ONLY OF TITLE AND FOLLOWING PARAGRAPHS SIMILARLY
DISCUSSING THIS IMPORTANCE IN OTHER TERMS
WILL BE RETAINED.

(B) MEANING OF LAST PARAGRAPH PAGE 16
HAS BEEN CHANGED BY EDITING. WE INTERPRET
PARAGRAPH AS REDRAFTED BY PRE-IG TO PORTRAY
BOLIVIA AS MERE FOLLOWER IN LDC EFFORT TO
RAISE RAW MATERIAL PRICES. WE NEED TO KEEP
BOLIVIA'S MOTIVATIONS CLEARLY IN MIND AND
NOT BE SURPRISED BY POSSIBLE LATER MOVES.
WE THEREFORE SUBMIT FOR CONSIDERATION THE
FOLLOWING REDRAFTED PARAGRAPH TO MAINTAIN
"CONCISENESS" TO EXTENT POSSIBLE WHILE
GIVING MORE ACCURATE DESCRIPTION OF BOLIVIAN
POSITION.

QUOTE. ALTHOUGH BOLIVA IS NOT IN THE
FOREFRONT AMONG LDCS, IT TENDS TO SIDE
WITH THOSE SEEKING TO MAINTAIN A HIGH
LEVEL OF PRICES BOTH BECAUSE IT IS A
HIGH-COST PRODUCER OF A VARIETY OF
MINERALS AND BECUASE IT IS SUSCEPTIBLE
TO THE PRESSURE OF OTHER RAW-MATERIAL-
EXPORTING COUNTRIES AND DOES NOT WISH
TO BE ISOLATED FROM THEM BOLIVIA DOES
BELONG TO THE INTERNATIONAL TIN COUNCIL
AND THE COFFEE AGREEMENT(BOTH INCLUDE
CONSUMING COUNTRIES). TO DATE, THE
GOB HAS NOT EDORSED THE CONCEPT OF
FORCING PRICE INCREASES THROUGH EXCLUSIVE
PRODUCER GROUPS. THE GOB, HOWEVER, IS
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QUIETLY BACKING PRIVATE MINING SECTOR
EFFORTS TO FORM INTERNATIONAL SUPPLIER
ORGANIZATIONS FOR ANTIMONY, TUNGSTEN
AND IRON. ANOTHER DANGER TO US ACCESS
IS THAT OTHER DEVELOPING COUNTRIES (E.G.
USSR AND JAPAN) HAVE ATTEMPTED TO TIE UP
PORTIONS OF BOLIVIAN EXPORTS IN LONG-TERM
CONTRACTS, SO FAR WITHOUT SUCCESS. UNQUOTE

(C) FIRST PARAGRAPH UNDER "ANTICIPATED CHALLENGES
AND OPPORTUNITIES" (PAGE 17) WOULD BE CLOSEST TO
ORIGINAL MEANING AND MORE ACCURATE IF FOLLOWING
CHANGES MADE. AFTER "UNDER STRONG PRESSURE AND"
SUBSTITUTE "PROBABLY WILL" FOR "MAY." AFTER
"EXPORT COMMODITIES" ADD FOLLOWING SENTENCE:
QUOTE AN INTERNATIONAL MOVEMENT TOWARD
CARTELS WOULD BE LIKELY TO MOVE BOLIVIA
POLITICALLY FROM ITS PRESENT PRO-US STANCE
TO THAT OF "THIRD WORLD" CONFRONTATION. UNQUOTE

(C) CHANGE OF FINAL SENTENCE, PAGE 17 IS
SUBSTANTIVE, NOT JUST EDITING. IT ELIMINATES
CONNECTION BETWEEN OUR INTEREST IN MILITARY SALES
FOR EXPORT EXPANSION AND OUR INTEREST IN
SUPPORTING POSSIBLE "ARMS LIMITATION OR
FREEZE IN THE SOUTHERN CONE."

10. EMBASSY NOTES REDUCTION IN CU FIGURE
AND UNDERSTAND PROPOSED CHANGE IS BASED ON
DECISION THAT LASPAU COSTS WILL BE ADDED
TO COUNTRY PROGRAM IF IT IS NOT FINANCED
FROM REGIONAL FUNDS.
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